



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

December 22, 2010

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over the printed name.

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

STATUS REPORT ON NEGOTIATIONS WITH L.A. CARE AND DEPARTMENT OF HEALTH SERVICES AMBULATORY CARE RESTRUCTURING (AGENDA OF JANUARY 18, 2011)

On April 13, 2010, your Board approved, in concept, the report and recommendations by Health Management Associates (HMA) on its evaluation of the Department of Health Services (DHS) Office of Managed Care (OMC)/Community Health Plan (CHP) and its readiness for pending health reform changes. In addition, your Board approved this Office convening: 1) DHS and L.A. Care representatives to engage in negotiations to determine whether the new relationship, as outlined in the HMA report, can be developed; and 2) workgroups to develop an implementation plan, with specific timelines and projected costs, to address the recommendations in the HMA report. Further, your Board instructed this Office to report back at a regularly scheduled Board meeting every 30 to 60 days with a status regarding the negotiations with L.A. Care.

This memorandum provides our third status report, in coordination with DHS, on the status of the negotiations with L.A. Care and the DHS ambulatory care restructuring efforts. In addition, this report includes recommendations related to the proposed implementation by the County, with L.A. Care, of the California 1115 Waiver transition of the Seniors and Persons with Disabilities (SPD) population from Medi-Cal fee-for-service to Medi-Cal Managed Care.

This report will be scheduled for consideration at your Board's January 18, 2011 meeting.

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L.A. Care Negotiations

The County and L.A. Care representatives have conducted weekly meetings to discuss the elements of the negotiations regarding the key negotiation areas identified in our earlier status reports: product lines to be considered, transition/operational issues; employee issues; financial considerations; and stakeholder involvement.

With the approval by the Centers for Medicare and Medicaid Services (CMS) of the California 1115 Waiver on November 2, 2010, the specific discussions have focused on the County's plan for implementation of the 1115 Waiver components, particularly the SPD transition to managed care.

Based on the negotiations to date, it is the recommendation of the Chief Executive Office (CEO) and the Interim Director of Health Services that the negotiations with L.A. Care proceed in the following order and time-line:

Transition of Seniors and Persons with Disabilities to Mandatory Managed Care

By March 1, 2011, complete negotiations and present to your Board a provider agreement between L.A. Care and DHS facilities for the assignment of Medi-Cal SPDs into mandatory managed care beginning in June 2011. In this agreement, the County will be a network provider for L.A. Care, who will assign these beneficiaries directly to County facilities.

The current thinking is that DHS facilities would take financial risk for the provision of inpatient and outpatient care as they do now under their agreement with CHP for other managed care beneficiaries. L.A. Care would retain financial risk for health plan functions, such as member services and other benefits such as pharmacy, skilled nursing care and durable medical equipment, among other benefits. The agreement with L.A. Care will be to target the assignment of the estimated 27,600 SPDs, who use DHS regularly, to DHS facilities as their medical home and the primary source of all their inpatient and outpatient care.

While these beneficiaries will not be assigned to the DHS Office of Managed Care/Community Health Plan (CHP), OMC will have several administrative roles associated with the coordination of care for this patient population. This will include adjudication of out of network claims and, likely, a role in utilization management and care coordination, such as specialty and inpatient care authorization.

The County will also seek agreements to provide specialty and inpatient care to an estimated 3,700 SPDs who use community clinics for their primary care, but already seek specialty care and inpatient care in DHS facilities. Several contracting models are being evaluated for this latter group, and work with L.A. Care on this issue is on-going.

The reason for proceeding first with the SPD contract is that under the recently approved 1115 Waiver, SPDs will be transitioned from fee-for-service to mandatory managed care starting June 1, 2011. It is important for DHS to retain these patients for both the Medi-Cal revenue they bring to our system and also because DHS is a major provider of care to this population.

Related to the SPD transition to managed care and as discussed during the 1115 Waiver negotiations, the State does not currently contribute any State General Fund dollars to the inpatient care provided to Medi-Cal fee-for-service patients treated in DHS hospitals. County certified public expenditures (CPE) are used to draw down the federal match for Medi-Cal. One of the provisions of the new 1115 Waiver agreement is that the public hospital counties must contribute an intergovernmental transfer (IGT) equivalent to the County share of treatment of the SPDs who are inpatients in County hospitals as a source to partially replace the revenue generated by the current CPE. This will necessitate an agreement with the State, and the resulting IGT, plus its federal matching revenue, will be part of the total funding provided by the State for patients assigned to L.A. Care and will flow through payments from L.A. Care to the County.

Transition of Other CHP Product Lines to L.A. Care

By May 1, 2011 complete negotiations on an agreement to transfer the current Medi-Cal managed care population from CHP to L.A. Care in its directly contracted Medi-Cal network (MCLA). This agreement will be provided to your Board if our discussions with L.A. Care produce a plan that provides sufficient financial support for the County system. Implementation and transition of the current CHP Medi-Cal membership to L.A. Care would be projected for late calendar year 2011. Discussions around the transition of current membership are on-going, but are viewed as a lower priority at this time because of the transition of SPDs which is set to begin in June.

After the Medi-Cal components are negotiated, then an evaluation will be made of the advisability of negotiating for the remaining two CHP product lines, Healthy Families and In-Home Supportive Services (IHSS), both of which may be impacted by the implementation of the Accountable Care Act in 2014. It may be advisable, therefore, to retain these in CHP for the intervening period. This would mean that CHP's Knox-Keene license would remain active, which could be beneficial to the County. This approach will also allow the County to make changes to the functions of OMC as

recommended in the HMA report, such as transitioning OMC's functions to those consistent with a management services organization providing the administrative infrastructure to the DHS facilities to participate in managed care networks.

Financial Review of CHP: Macias Gini & O'Connell LLP (MGO), the independent audit firm selected to conduct the financial review of the DHS CHP, has provided its final report to the County DHS and CEO and to L.A. Care for review. DHS staff are working with MGO to address two areas they have identified related to the report: 1) potential redaction of confidential rate-sensitive data currently presented in the report; and 2) presentation of evaluation and findings related to some areas of OMC/CHP expenditures and accounts receivables. A separate report related to the financial review will be provided shortly.

Stakeholder Education and Outreach: With release of this status report and its recommendations and timeline, the County and L.A. Care representatives will conduct several meetings for stakeholder and community education, outreach and involvement, during the first few weeks of January 2011, in advance of the January 18, 2011 meeting of your Board, when this report is proposed for consideration. The stakeholder meetings will include representatives from your Board offices.

Ambulatory Care Restructuring

Consistent with the Ambulatory Care Restructuring Steering Committee's goals and objectives for its ambulatory care restructuring efforts:

- DHS identified and assigned an internal team from across DHS with extensive ambulatory care experience to serve as Ambulatory Care's interim central leadership team. The team leader is Gretchen McGinley, Directory of Ambulatory Care.
- DHS identified and engaged a consulting project executive from 3 Key Consulting Inc. to serve as the long-term Project Manager, with oversight responsibility for the Ambulatory Care Transformation's design-through-delivery phases. As discussed at your Board's September 14, 2010 meeting, DHS worked with L.A. Care on an expedited process to engage the Project Manager, via a CEO Delegated Authority Agreement with L.A. Care, with all costs being covered by funds in the DHS 2010-11 Final Budget.
- DHS is working on scopes of work for two other priority areas: technical assistance and training to support implementation of medical homes; and public relations/communications consultation. As with the project management services, these consulting services will be secured by amending the

current CEO Delegated Authority Agreement with L.A. Care, with all costs to be covered by funds in the DHS 2010-11 Final Budget.

The interim central leadership team initiated its work on November 1, 2010, and subsequently has been engaged in these efforts on a daily basis, with the focus on delivering a comprehensive and achievable plan for Ambulatory Care's patient-centered transformation.

Organization of Efforts: Ambulatory Care Transformation

In order for the objectives and activities of this Transformation to be organized and delivered with an efficient, streamlined, and comprehensive approach, the following structure was adopted:

- 1) The initiation of the Ambulatory Care Transformation Program (ACXP) the Transformation's broad governing structure, with a series of Projects, or workstreams for the identification, assessment, definition, developing, testing, and implementation for each of the Program's aspects.
- 2) The current ACXP areas of primary focus are:
 - Medical Home
 - Ambulatory Care Organizational Restructure
 - Managed Care Delivery Integration
 - Contracted Services
 - Specialty Care
 - Diagnostic & Ancillary Services
 - IT Data & Systems Integration
 - Financial Systems Integration
 - Episodic Care
 - Behavioral Health Services
 - Learning, Knowledge & Growth

The ACXP Strategic Approach

- Based upon the identification of a phased approach for the Ambulatory Care Transformation, the Team is developing strategies for short-term, mid-term, and long-term requirements and their respective implementations - across all project workstreams, and supporting services (including information technology and financial systems).

- Based upon core competencies, Team Leads for each of these Project Workstreams have been identified, augmented by additional subject-matter experts from within DHS, with additional staffing occurring on an as-needed basis.
- The ACXP Leadership is proactively reaching out across DHS, and engaging where efforts may have been previously initiated in any of the Project arenas, coalesce and integrate those efforts into the overall set of AC set of requirements and initiative.
- To further its effectiveness, the Team is also reaching across the U.S. public health sector to adopt lessons learned and best practices which have been developed and operationalized in other significantly-sized Ambulatory Care transformation efforts.

The next status report on the ambulatory care restructuring plan is planned for March, 2011.

Delegated Authority Agreement with HMA

In order to continue the resources needed to facilitate the County's negotiations with L.A. Care and to assist DHS in the development of key elements of the ambulatory care restructuring plan, this Office is extending the current Delegated Authority Agreement with HMA to March 31, 2011. The increased cost of the work related to this amendment is \$196,284.

Please let me know if you have questions or your staff may contact Sheila Shima, Deputy Chief Executive Officer, at (213) 974-1160 or Dr. John Schunhoff, Interim Director of Health Services, at (213) 240-8101.

WTF:SAS:MLM
DL:bjs

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Health Services